

## Sector View

## Insurance

	1 M	3 M	6 M	31/12/15
Insurance	-1.0%	1.2%	-9.4%	-19.0%
DJ Stoxx 600	-2.1%	3.6%	-1.0%	-7.4%

\*Stoxx Sector Indices

## Companies covered

Company	Rating	Market Cap.
<b>AEGON</b>	NEUTRAL	EUR6
Last Price	EUR3.419	EUR7,372m
<b>ALLIANZ</b>	BUY	EUR180
Last Price	EUR132.45	EUR60,530m
<b>AXA</b>	BUY	EUR29
Last Price	EUR18.66	EUR45,237m
<b>CNP ASSURANCES</b>	NEUTRAL	EUR15
Last Price	EUR14.14	EUR9,709m
<b>COFACE</b>	NEUTRAL	EUR5.4
Last Price	EUR5.23	EUR822m
<b>EULER HERMES</b>	BUY	EUR89
Last Price	EUR74.69	EUR3,185m
<b>HANNOVER RE</b>	SELL	EUR110
Last Price	EUR92.81	EUR11,193m
<b>MUNICH RE</b>	SELL	EUR185
Last Price	EUR162.6	EUR26,187m
<b>SCOR</b>	BUY	EUR35
Last Price	EUR27.355	EUR5,252m
<b>SWISS RE</b>	NEUTRAL	CHF100
Last Price	CHF84.85	CHF30,552m
<b>ZURICH INSURANCE</b>	NEUTRAL	CHF270
Last Price	CHF255.1	CHF38,401m



## Motor insurance in a (semi)autonomous car world: the distant menace

We take the opportunity of the publication of an initiation report on Car Part Manufacturers ([full report out today](#)) to highlight the potentially disruptive nature of the advent of fully-autonomous vehicles. However, this is not for tomorrow, and in the short/mid term the likely long phase of ramp-up for semi-autonomous vehicles should leave insurance groups enough time to adapt.

## ANALYSIS

- Motor insurance premiums represent 40% of total P&C insurance activities, making it one of the largest branches of the insurance scope. And 90% of road accidents are caused by human error. These two figures are enough to highlight the potentially disruptive nature of the advent of fully-autonomous vehicles. At this stage, visibility is lacking as to how car insurance would look in the autonomous vehicle era, but the first studies suggest an 80% decline in claims and a 60% decline in the cost of claims (increase in average claim due to more complicated and costly repair work). Is this excellent news for insurance groups? Not really, since the decline in risk in a branch as competitive as car insurance is automatically set to result in a decline in insurance premiums, thereby making fixed cost structures unsustainable in a segment that is already structurally loss-making (combined ratio > 100%). In all, there is little doubt that consumers should come off better, but this is not necessarily the case for insurers.
- In addition to potentially massive financial impacts, the very way of apprehending car insurance could be thrown into question. Today, car insurance is essentially (85%) a retail business, in which the notion of the driver's responsibility is central (1968 Vienna Convention). In the future, with the inevitable extension in the notion of responsibility (to carmakers, suppliers of embedded technology, algorithm designers, companies responsible for transmitting data, users?) the market physiognomy could change. We could imagine that autonomous carmakers might insure the cars they sell or rent themselves, thereby transforming car insurance into a wholesale business based on the notion of product responsibility.
- The advent of fully autonomous vehicles is nevertheless not for tomorrow. In the shorter term, the reality is more likely to resemble a long phase of ramp-up for semi-autonomous vehicles. However, the development of this type of vehicle does not require a change in the regulatory framework and the notion of responsibility since the semi-autonomous vehicle must by nature remain permanently under the driver's control. The implications for car insurance are therefore more limited, albeit not zero, and insurance companies are currently looking for an experience curve that would enable them to better assess changes in risk, and hence in pricing. For example, Allianz, whose European research centre on automotive risks has shown the efficacy of certain systems, has just launched a contract in France for vehicles equipped with at least one emergency braking system, an automatic parking system (management of steering, acceleration and braking) or an adaptive speed regulator (enabling safety distances to be respected), which notably plans for a 25% cut in the insurance premium. A similar offer is thought to be in preparation for Germany. It would nevertheless be mistaken to conclude that car insurance is set to witness sharp deflationary pressure in the short term. Indeed, French insurance groups estimate that semi-autonomous vehicles currently represent 3-4% of vehicle sales but < 0.5% of vehicles in circulation. Assuming that the share of semi-autonomous vehicles rises rapidly in terms of sales (30% out to 2020?), their share in the overall stock is unlikely to exceed 5% by this date. As such, while the ramp-up is unavoidable, it is set to be very slow and will leave insurance groups enough time to adapt. In short, this again testifies to the fact that in insurance, the notion of stock is stronger than that of flows.
- In the majority of major European countries, mutuals traditionally boast high market shares that can exceed 50%. This is notably the case in France, where *bancassurers* are also sizeable rivals. For the composite insurance companies we cover (Allianz, AXA, Zurich), motor insurance represents 25-40% of P&C premiums.

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SELL ratings 11.3%

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